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GAIN Report

Global Agricultural Information Network

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Argentina

LIVESTOCK AND PRODUCTS ANNUAL

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Report Highlights:

Argentine beef exports in 2010 are forecast at 380,000 tons (carcass weight equivalent). A smaller herd and projected lower beef production are expected to result in lower exports and domestic consumption. The severe drought has had a major impact on the size of the calf crop. The local feedlot industry continues to grow with the help of a government support program, with increased production in feedlots partially offsetting the drop in cattle numbers.

Commodities:

Animal Numbers, Cattle

Meat, Beef and Veal

SECTION I. SITUATION AND OUTLOOK

Argentine beef exports in 2010 are projected down at 380,000 tons (carcass weight equivalent – cwe) because of reduced local beef supply. The impact of a smaller cattle herd due to low profitability and a two-year-long drought is forecast to limit beef supply over the next two years.

The government increased export authorizations in 2009 due to adequate supplies, but it is expected to continue to have an active role in determining total export volumes. The Government of Argentina (GOA) has focused on controlling beef prices in the domestic market since 2005. The most important tools the government uses to control the domestic beef market are maximum prices on 13 popular beef cuts, subsidies provided to feedlots, and control of export authorizations for beef shipments. While some industry contacts estimate that beef will have to be imported in 2010 due to reduced supplies, Post expects reduced supplies to be matched by a reduction in consumption (Argentina has the highest per capita beef consumption in the world) and lower exports, with no significant imports expected.

The main export products and destinations in 2010 are projected to be high value chilled cuts to the European Union (EU) under the Hilton Quota, thermoprocessed beef products, to the EU and Hong Kong, chilled cuts to Chile, and frozen cuts to the Russian Federation, Venezuela and Israel. Exports to the US of thermoprocessed products are expected to remain stable or diminish somewhat because of lower beef supply.

Most local cattle analysts foresee local cattle and beef prices increasing in the last part of 2009 and in 2010 due to limited supplies. An end to the drought, and related forced sales, and a smaller herd are expected to put upward pressure on prices. At the same time, most local beef exporters forecast somewhat better FOB prices for 2010, as the world market is showing signs of recovery.

Local beef output in 2010 is projected at 2.8 million tons, the smallest since 2002. After 6 years of herd expansion and large slaughter volumes, fed cattle supply in 2010 is expected to drop to 12.8 million head. A drought over the last year and a half (considered the worst in the past 50 years) in most

of the cattle producing areas and low returns because of low prices has forced a significant reduction of the herd. Ending inventories in 2010 are projected to be approximately six million head lower than the peak of 2006-07.

In 2005-2008, most large local export meat plants were sold to foreign companies. Two Brazilian meat packers purchased seven plants and another purchased four (and four in Uruguay). Two US companies purchased three in total. The market of acquisitions in 2009 was very quiet. Investment in plants was small, except in those recently acquired which needed modernization to operate more efficiently.

The National Institute of Beef Promotion, a private entity funded by cattlemen and slaughter plants through a check off program continues to work on promoting Argentine beef abroad through the participation in major food shows and working together with Argentine embassies. It also develops local educational campaigns, market research, ranch management publications, statistics, etc.

SECTION II. STATISTICAL TABLES

(in 1,000 head)

Cattle	Animal Numbers, Argentina			2008		2009		2010	
				2008		2009		2010	
				Market Year Begin: Jan 2008		Market Year Begin: Jan 2009		Market Year Begin: Jan 2010	
				USDA Official Data		Old Post		USDA Official Data	
				Data		Data		Data	
Total Cattle Beg. Stks	55,662	55,662	55,662	54,760	54,760	54,260			50,158
Dairy Cows Beg. Stocks	2,150	2,150	2,150	2,150	2,150	2,000			2,000
Beef Cows Beg. Stocks	20,800	20,800	20,800	20,400	20,400	19,000			18,000
Production (Calf Crop)	15,200	15,200	14,900	14,200	14,200	12,000			13,000
Intra-EU Imports	0	0	0	0	0	0			0
Other Imports	0	0	0	0	0	0			0
Total Imports	0	0	0	0	0	0			0
Total Supply	70,862	70,862	70,562	68,960	68,960	66,260			63,158
Intra EU Exports	0	0	0	0	0	0			0
Other Exports	2	2	2	0	0	2			2
Total Exports	2	2	2	0	0	2			2
Cow Slaughter	5,500	5,500	5,500	5,500	5,500	5,500			4,400

Calf Slaughter	2,700	2,700	2,500	2,700	2,700	2,800			2,250
Other Slaughter	6,600	6,600	6,800	6,000	6,000	6,700			6,150
Total Slaughter	14,800	14,800	14,800	14,200	14,200	15,000			12,800
Loss	1,300	1,300	1,500	900	900	1,100			700
Ending Inventories	54,760	54,760	54,260	53,860	53,860	50,158			49,656
Total Distribution	70,862	70,862	70,562	68,960	68,960	66,260			63,158

(in 1,000 head and 1,000 MT CWE)

Veal	2008			2009			2010	
	2008			2009			2010	
	Market Year Begin: Jan 2008			Market Year Begin: Jan 2009			Market Year Begin: Jan 2010	
	USDA Official Data		Old Post	USDA Official Data		Old Post	USDA Official Data	Jan
			Data			Data		Data
Slaughter (Reference)	14,800	14,800	14,800	14,200	14,200	15,000		12,800
Beginning Stocks	0	0	0	0	0	0		0
Production	3,150	3,150	3,150	3,010	3,000	3,200		2,800
Intra-EU Imports	0	0	0	0	0	0		0
Other Imports	4	3	4	4	4	2		10
Total Imports	4	3	4	4	4	2		10
Total Supply	3,154	3,153	3,154	3,014	3,004	3,202		2,810
Intra EU Exports	0	0	0	0	0	0		0
Other Exports	421	421	421	400	420	560		380
Total Exports	421	421	421	400	420	560		380
Human Dom. Consumption	2,733	2,732	2,733	2,614	2,584	2,642		2,430
Other Use, Losses	0	0	0	0	0	0		0
Total Dom. Consumption	2,733	2,732	2,733	2,614	2,584	2,642		2,430
Ending Stocks	0	0	0	0	0	0		0
Total Distribution	3,154	3,153	3,154	3,014	3,004	3,202		2,810

SECTION III. SUPPLY AND DEMAND, POLICY & MARKETING

Production

Cattle inventories for the end of 2010 are projected down at 49.7 million head. This level represents a loss of about ten percent since the peak of 2006-07. Low returns plus a severe drought in almost the entire country have encouraged or forced producers to market more cattle, especially females. Based on private sources, female (cows, heifers, and calves) slaughter in 2008 and the first half of 2009 accounted for about 48-49 percent of the total, while the average of 1990-99 was 42 percent. Larger losses-than-normal were also reported.

The main factor in smaller inventories was the drought, which began in mid-2007 and has persisted to the present time. The condition of breeding cows in several areas of the country was not ideal, affecting pregnancy rates and thus the calf crop of 2008. The continuation of the drought throughout 2008 and most of 2009 in practically the whole country will severely affect the number of calves born in 2009. The calving season began in July 2009 and will continue to almost the end of the year. Private analysts indicate that veterinarians throughout the country are reporting very low pregnancy rates, with expected 3 million calves less than 2008.

Very low returns for breeders in the past few years and lower productivity because of the drought forced producers to market more cattle than usual. In many cases, breeding cows were marketed before letting them die on the ranch because of lack of feed or water. In some areas, especially in the northern part of the country, and the southwestern part of Buenos Aires province, cattle losses were significant.

While production costs for commercial breeders remained practically unchanged in dollar terms comparing July 2009 versus July 2008, gross returns dropped significantly because of lower cattle prices. Cattle analysts indicate that in the best of the cases, efficient commercial breeders have come out breakeven in the last few years.

Weather forecasts predict rainfall to normalize in the next months. Most analysts expect less fed cattle supplies by the end of 2009, once pastures recover in springtime. Despite fewer females in this breeding season, expected more normal weather would improve cow conditions, and thus obtain higher pregnancy rates than last years. Some cattlemen will have to extend the period of service, or even wait until next fall to breed the cows. The number of calves to be born in 2010 could total 13 million.

Cattle liquidation in 2008 and 2009 helped to maintain an abundant beef supply and keep retail beef prices stable. However, in 2010, fewer weaned calves, a smaller herd, and a significant reduction of

slaughter of females will limit the number of cattle to market. Total beef output in 2010 is forecast down at 2.8 million tons.

Due to restrictions on retail beef prices and exports, fed cattle prices have practically remained unchanged in the past year and a half, despite significant overall inflation. Low profitability and the negative effects of the drought have led most commercial breeders to minimize their investments. Some new ranches developed in northern Argentina continued to invest in fencing, water systems and pastures.

The feedlot sector received substantial investment in 2008-09, promoted by the government program to subsidize feed costs in order to secure beef supplies and maintain stable domestic prices. The sector has expanded rapidly due to the government support and the extended drought, which forced more feeder cattle to move from pastures to confined finishing. There are two distinct markets in the local feedlot sector: 1) the largest by far, are light heifers and male calves finished below 300 kilos for domestic consumption and 2) heavier steers, mostly in the hands of large export meat packers, which have several thousand head in different hotel feedlots. Packers have entered the feedlot industry to ensure supplies of fed cattle.

The number of feedlots grew significantly in the past couple of years, and many existing ones expanded their capacity. One of the large Brazilian meat packer groups recently announced that it would build two feedlots of 22,000 head each. In March 2009 there were 1,800 operations officially registered to receive the subsidy for feedlot production. Over 40 percent of the feedlots are in Buenos Aires province, while Santa Fe and Cordoba provinces host 20 percent each. There are approximately 16 operations of more than 10,000 head capacity, 36 operations with 5-10,000 head and 100 with 2,500-5,000 head.

The local chamber of feedlots indicated that in 2008, roughly 5 million fed cattle went to market from feedlots, and they expect over 6 million in 2009. This would represent 40 percent of the expected total slaughter (including cows and bulls). The number of cattle in feedlots in 2010 will depend largely on the government subsidy program. An end to the drought and the recovery of pastures could encourage cattlemen to produce more on pastures, with a smaller herd also potentially having a negative impact on the number of cattle in feedlots in 2010.

Many analysts believe that Argentina's cattle sector is moving more and more towards a system by which breeders will put on the largest amount of weight on grass and the last 80-150 kilos will be produced with grain or corn silage at the ranch or in feedlots. In the Pampa area, practically 10 million hectares of high quality pastures were turned into cropland in the past 15 years, which is one of the

reasons why feedlots are expected to continue to grow in the next few years. The local livestock sector has come to recognize the efficiency and quality of product for grain fed beef. The Northern provinces, where many ranches are being developed with fencing, water, new pastures, and improved breeds, will have a similar system, but producing heavier cattle. Entre Rios province has a vast area of islands where a large number of cattle graze natural pastures from spring to autumn. In the future, this area could be one of the very few left to produce straight grass fed cattle.

Seed distributors point out that the demand of seeds for pastures in 2009 dropped 60 percent, compared to 2006 sales. In general, perennial species have dropped significantly. Seeds for lowlands and poor soils remain relatively stable, with some growth in seeds for subtropical pastures in the northern part of the country.

With the drought, thousands of hectares of pasture were destroyed. Most ranches are in a very delicate situation due to the limited availability of pastures and poor condition of cattle. Reserves were already limited as last spring/summer was also dry. The price of hay bales increased significantly. Producers are expecting the weather to normalize with spring rains. Abundant rain is needed to replenish very dry soils.

In early 2007, the government implemented a subsidy scheme for the sectors utilizing grains and oilseeds as feed, such as the dairy sector, pork and poultry producers and feedlots. The goal was to offset part of rising world commodity prices and maintain a well-supplied domestic market. Local contacts report that the feedlots are receiving payments on a regular basis (although some indicate that there is a 4-month delay). Based on the average payment of the last three months, registered operations received about US\$ 73 per animal produced for the local market. Feedlots claim that if this program would not exist, they would lose money at current market conditions. Based on private estimates, the government will spend approximately US\$250 million under this program in 2009.

Despite much lower production of corn and soybeans in crop 2008-09, mainly due to the severe drought, local users of grains and oilseeds will be able to source locally their needs. Argentina is one of the world's top producers and exporter of soybean meal and oil and one of the leading corn exporters. The domestic consumption of soybeans is very small, while corn consumption is bigger. The broiler and egg sector together with feedlots are the largest consumer of animal feed, followed by the dairy sector.

Consumption

Domestic beef consumption for 2010 is forecast to drop to 2.43 million tons because of lower supplies. Most sources expect Argentines (the largest beef eaters in the world) will shift some consumption to other meats.

Consumption of poultry will continue to increase marginally as it is already in line with consumption in other countries, but there is potentially significant room for increased pork consumption. Pork production in Argentina is relatively small and large amounts are imported every year. In the past few years, domestic production is expanding, through primarily large investments. Pork production in Argentina has always faced fierce competition from inexpensive beef.

Poultry production and consumption continues to expand. During the first part of 2009, lower exports forced some more products into the domestic market, where the government has controls on retail prices. World markets and exports have begun to recover in recent months. The local poultry industry is very competitive due to low cost corn and soybean meal for feed use.

Prices

Most analysts predict that local cattle and beef prices will increase in 2010 due to lower supplies. Beef supply and consumers' purchasing power will be the main drivers that will affect the market. Government controls on prices and exports could also have a major impact on prices.

Feeder male calves during 2009 weaning season averaged pesos 3.40 per live kilo, lower than in 2008. Cattle breeders expect better prices for 2010 because of a significantly smaller calf crop and expected more normal weather.

The average price of fed steers for the domestic market during the first 7 months of 2009 was 12 percent lower than in the same period of 2008. Government policies focused on controlling beef prices in addition to large cattle supplies put downward pressure on prices. The government agreed with export packers to maintain stable retail prices of 13 popular cuts and to sell beef to large supermarkets for the weekends at low prices in order to be able to meet their export plans.

Stocks

In May 2008, as a way to secure a well-supplied domestic market, the government implemented a system by which export beef packers were required to have at least 75 percent of their warehouse capacity full to be able to export the excess above that level. With large slaughter levels and prices

under control, the government reduced the cap to 65 percent in March 2009 and to 30 percent in August 2009. Despite these stocks, the Argentine beef complex operates with very small stocks as the storage capacity of the industry is small and half carcasses are usually marketed just a few days after slaughtered.

Trade

Argentine beef exports for 2010 are projected at 380,000 tons, lower than in 2009 because of reduced supplies. There is a wide dispersion in what analysts project, from as low as 300,000 tons to as high as 500,000 tons. Government policies will have a major impact on determining export levels, as the government is expected to continue closely monitoring domestic beef supplies and retail prices. The government has in the past limited exports in response to rising prices and could do so again in 2010. There are two main mechanisms used to administer export volumes are: 1) the registry of export operations, under by which every exporter has to request authorization from the government to be able to export. During some periods in the past several months, these registers took many weeks to be approved. Exporters indicate that currently, due to excess supplies, the registrations are approved quickly; and 2) the level of stocks which export meat packers are required to maintain in order to export. In 2008, this level was 75 percent, but the government has currently reduced it to 30 percent.

Priority markets are expected to be the 28,000 ton Hilton Quota of high premium cuts exported to the European Union, as well as a relatively large volume of thermoprocessed beef products made primarily from manufacturing cows, which are not widely consumed in the domestic market. Private sources report that Argentina and Venezuela have an agreement of food for oil, and the countries are currently working on an additional agreement to export more beef over the next 12-18 months to partially replace imports from Colombia. Other potential markets would be Israel with frozen Kosher beef, Chile with boneless chilled cuts and the Russian Federation with frozen boneless cuts.

Industry sources note that Argentina could be eligible to receive an additional volume of Hilton Quota in compensation of the incorporation of Romania and Bulgaria to the European Union. The Hilton Quota was fulfilled in 2008-09, with Germany accounting for 50 percent of the total, Italy 17 percent, the Netherlands 16 percent and the UK 6 percent. The government recently announced changes in the criteria for distributing the quota among local exporters.

Argentina is eligible to export to China, but so far, no trade took place. Exporters indicate that this process will be slow. Eventually, Argentina would try to focus on high value cuts for the hotel and

restaurant industry. Hong Kong is increasing its importance as a market for Argentine thermoprocessed and boneless frozen beef.

Local exporters expect that export prices in 2010 will remain the same or increase somewhat. Production costs for exporters have increased in 2009, primarily due to higher wages, energy and services.

Exports in 2009 are estimated to total 560,000 tons (cwe), significantly higher than earlier projected. Exporters report that the government eased controls on shipments because of the large cattle supply, stable retail prices and the need of income from exports. FOB prices are currently about 35 percent below last year's peak, but they are still considerably higher than historical values.

The World Organization for Animal Health, OIE, recognizes Argentina as free of foot and mouth disease with vaccination in the zone north of parallel 42 (the zone south of it is considered free without vaccination). The last outbreak occurred in Argentina in early 2006. Approval for Argentina to export fresh beef to the US is still pending (due to foot and mouth disease restrictions).

The OIE recognizes Argentina as a country with negligible BSE risk. The United States is now allowed to export beef to Argentina because of BSE related restrictions.

Marketing

The government is developing a Federal Meats Law to improve the organization and control of the local beef sector. The proposed rules have been in discussion for several years, and it is uncertain when the bill will pass. The key points of the law would establish the same sanitary standard for both the domestic market and exports (these currently subject to higher standards); eliminate the distribution in the local market in half carcasses; and eventually commerce to boxed beef.

Of the total beef production in Argentina, normally 80-85 percent is consumed domestically. Consumers that are more affluent prefer beef from young, light cattle with most half carcasses weighing between 65-85 kilos. This is because consumers believe that the beef is more tender from younger animals. Fed calves coming from feedlots usually supply this market, which most

consumers buy in super and hypermarkets. In less affluent areas, consumers tend to buy beef from somewhat heavier cattle and their preferred store is the close-by butchery.